

1-1997

The Maine Economy: Year-End Review and Outlook 1996

Maine State Planning Office

Follow this and additional works at: http://digitalmaine.com/spo_docs

Recommended Citation

Maine State Planning Office, "The Maine Economy: Year-End Review and Outlook 1996" (1997). *State Planning Office*. Paper 15.
http://digitalmaine.com/spo_docs/15

This Text is brought to you for free and open access by the State Documents at Maine State Documents. It has been accepted for inclusion in State Planning Office by an authorized administrator of Maine State Documents. For more information, please contact statedocs@maine.gov.

1-1-1997

The Maine Economy: Year-End Review and Outlook 1996

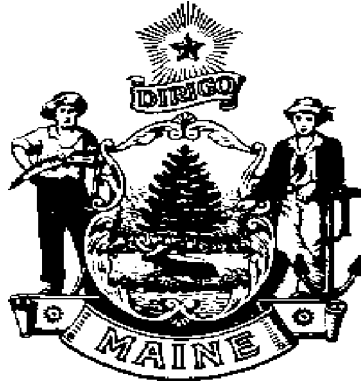
Maine State Planning Office

Follow this and additional works at: http://statedocs.maine.gov/cwri_docs



THE MAINE ECONOMY:
Year-End Review and Outlook
1996

Maine State Planning Office
January 1997



**MAINE STATE PLANNING OFFICE
184 STATE STREET
AUGUSTA, MAINE 04333**

The Maine State Planning Office maintains several economic databases and other informational resources which may be of interest to the reader. For details, call Galen Rose at (207) 287-1478.

Also, we maintain a graphical database called MaineGraph which is a menu-driven file with seventy-eight graphs and associated data on the Maine and national economies. Two versions, one requiring Excel and the other requiring Lotus 123, are available on the World Wide Web. To access these, go to our homepage at -

<http://www.state.me.us/spo/homepage.htm>

- and click on the "Download Area" icon. For those having neither Excel nor Lotus 123, a "light" version of MaineGraph is available from the Portland Newspapers at -

<http://www.mainebusiness.com/bigpic/maingraf/maingraf.htm>

Introduction

This year-end report on the Maine economy reviews State economic performance during 1996, outlines the economic outlook for Maine, New England, and the nation, identifies some of the issues we expect will prove important in Maine's economic performance during the next few years, and highlights ten key economic events of the past year.

Among the conclusions detailed in this report are:

- Maine economic performance in 1996 was mixed, with the major indicators, on balance, describing continued slow growth. National economic growth was stronger than Maine's.
- During 1996, Maine fully recovered the number of payroll jobs lost during the 1990-91 recession, and unemployment dropped below 5% in ten counties.
- The major economic events in the State during the year included a major oil spill in Portland Harbor, record flooding in southern Maine, a semi-final winner in the "clearcut" referendum, a big new contract for the Bath Iron Works shipyard, and an ambitious plan to expand cranberry production in Maine.
- The Maine economic outlook calls for continued slow growth, with southern- and mid-coastal counties outperforming the balance of the State. Over the next five years, Maine payroll employment growth is expected to average one-half to one percent per year, while inflation adjusted personal income will average less than two percent per year. The major dampers on Maine economic performance will include slow population growth and continued structural shifts in employment patterns from higher wage paying industries to the lower paying industries.

We hope that you will find this report useful and informative, and encourage you to call us with any comments or questions you may have.

EDITOR:

Galen L. Rose, Economist
Maine State Planning Office
(207)287-1478
(galen.rose@state.me.us)

Table of Contents

The Maine Economy in 1996	2
The Ten Most Significant Economic Events in Maine in 1996	7
The U.S. and New England Outlook	10
Maine Economic Outlook	11
Issues For The Future	12

Acknowledgements

Contributors to this report were Laurie Lachance (U.S. and New England Outlook, Maine Economic Outlook), Galen Rose (Maine Economy in 1996), and Joyce Benson, Todd Burrowes, Jim Connors, Jim Doyle, Michael Montagna, Harold Payson, and Richard Sherwood.

The Maine Economy in 1996

OVERVIEW

Maine economic performance in 1996 was mixed. In researching this commentary, we began with a list of the 17 economic indicators that we track most closely, dividing these indicators into two columns depending on whether the indicator showed better or worse performance in 1996 than in the year before. Interestingly, we ended up with 8 indicators in each column, with building permits showing no change. This exercise is indicative of an economy which is growing very slowly. Indeed, most of the indicators, whether positive or negative, showed only modest deviation from this 'no change' midpoint. Conversely, of the seven national indicators we looked at, five fell into the 'better' column, confirming a faster growing economy than Maine's. Below, we show the results of this exercise (Maine indicators, only).

BETTER:

Unempl. Rate (lower)
 Consumer Retail Sales growth
 Consumer Confidence
 Residential Construction Contracts
 Bank non-performing Loans (fewer)
 AFDC Caseload (declining)
 Food Stamp Caseload (declining)
 General Fund Revenues

WORSE:

Economic Growth Index
 Wage & Salary Employment growth
 Personal Income growth
 Construction Contract Awards
 Help-wanted Advertising
 Bankruptcies (still rising fast)
 Mortgage Rates (higher)
 Gasoline Prices (higher)

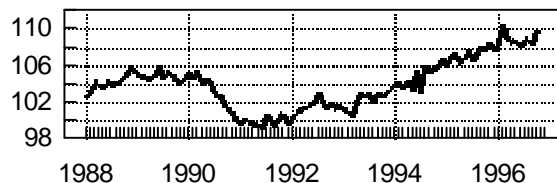
Perhaps the single greatest impediment to faster economic growth in Maine is the State's very slow population growth. Between 1991 and 1996, Maine's population increased by about 8,000. Over the previous five years, the State's population increased by about 64,000, for a growth rate eight times as fast as in the latest five year period. Additionally, migration and aging patterns caused a decline of 11,000 persons in the 16-24 age group between 1990 and 1995, leaving a dearth of people in the labor force's entry-level age group. However, this situation may be improving. According to the U.S. Bureau of the Census, Maine had a net in-migration (2,300) in 1996, for

*** The Economic Growth Index is a composite of resident employment, real consumer retail sales, production hours worked in mfg., and services employment. All components are seasonally adjusted.**

the first time since 1990, and the Bureau's projections call for continued modest net in-migration over the next few years.

Maine Economic Growth Index

(1987 avg. = 100)



EMPLOYMENT & INCOME

Maine payroll employment growth (people on payrolls, not including the self-employed) was very slow in 1996, at 0.4% for the year through November, as compared to 1.9% growth in '95 and 2.3% in '94. This slow growth is traceable in part to slow population growth and the changing age composition of the population. As measured by payroll employment as a percentage of the working age population, Maine's labor participation rate is very close to the record high 69% measured in 1989, at the peak of the eighties economic boom. That is, there are few people left who want jobs and don't have them, thus employment growth has slowed. In November 1996, Cumberland County's jobless rate was under 3% and 5 other counties had rates below 4%. As a result, these areas of the State are experiencing labor shortages.

Since labor and proprietors' income comprise roughly 60% of total personal income in Maine, slower employment growth has naturally led to slower income growth. Between second quarter 1995 and second quarter 1996, personal income in Maine increased by 3.5%; the national average was 5.5%, and New England income growth was 4.8%.

MAINE PAYROLL EMPLOYMENT JOB CHANGE BETWEEN 1995 AND 1996*

	JOB S	PCT. CHG.
TOTAL	2,100	0.4%
SERVICES	2,900	1.9
RETAIL TRADE	1,500	1.4
WHOLESALE TRADE	1,400	5.4
CONSTRUCTION	300	1.2
FINAN/INSUR/R.ESTATE	100	0.2
TRANSPORT/PUB.UTILS.	-200	-0.9
GOVERNMENT	-1200	-1.3
MANUFACTURING	-2,600	-2.8

Note: Comparison is between the first 11 months of 1996 and the same period of 1995.

As the table below illustrates, the lowest jobless rates in Maine are found among the south-coast and mid-coast counties, with higher rates in the central counties, and the highest rates in the western mountains and northern and Downeast coastal counties.

**JOBLESS RATES OF MAINE COUNTIES
(NOVEMBER - not seasonally adjusted)**

	1996	1995
MAINE	4.4%	5.7%
CUMBERLAND	2.3%	3.3%
SAGadahoc	3.0%	4.2%
HANCOCK	3.1%	7.3%
KNOX	3.2%	3.8%
LINCOLN	3.3%	4.9%
YORK	3.7%	4.2%
ANDROSCOGGIN	4.3%	5.6%
PENOBSCOT	4.7%	6.0%
KENNEBEC	4.7%	6.4%
OXFORD	5.1%	7.6%
WALDO	5.8%	6.9%
PISCATAQUIS	6.7%	8.2%
SOMERSET	6.8%	9.2%
FRANKLIN	6.9%	7.1%
WASHINGTON	7.1%	8.3%
AROOSTOOK	7.8%	9.9%

TAXABLE RETAIL SALES

Maine taxable consumer retail sales were up 5.3% for the first 10 months of 1996 compared to the same period a year ago. This was a significant improvement over 1995, when sales were up only 1.7% over 1994. The table below summarizes retail sales growth in 1996 by store-type-group.

	SALES CHG. (mil\$)	PCT. CHG.
TOTAL CONSUMER SALES	\$392.1	5.3%
OTHER RETAIL	69.9	8.5
BUILDING SUPPLY	51.2	5.1
GENERAL MERCHANDISE	41.2	2.8
AUTO TRANSPORTATION	34.6	9.6
RESTAURANT/LODGING	34.6	2.6
FOOD STORES (taxable sales only)	11.9	1.3

Note: Comparison is between the first 10 months of 1996 and the same period of 1995.

Geographically, retail sales growth in 1996 correlates loosely with unemployment rates; that is, sales growth is generally strongest where unemployment rates are lowest.

REAL ESTATE & CONSTRUCTION

According to Valarie Lamont of the Institute for Real Estate Research and Education, unit sales of Maine homes in 1996 were up at least 5% over last year. Despite higher mortgage lending rates in '96, not only were sales improved, but average sale prices increased to \$113,000+ and the average time on the market of sold homes continued to decline.

According to the Federal Reserve Bank of Boston, the value of Maine construction contract awards through October 1996 was down 5% from the same period of 1995. Awards for the residential sector were up 12.3%, but the trend appeared to be reversing in September and October.

MAINE CONSTRUCTION CONTRACT AWARDS

	PCT. CHG.
TOTAL CONSTRUCTION	-5.0%
BUILDING	
RESIDENTIAL	12.3
NON-RESIDENTIAL	-4.9
NON-BUILDING	-27.8

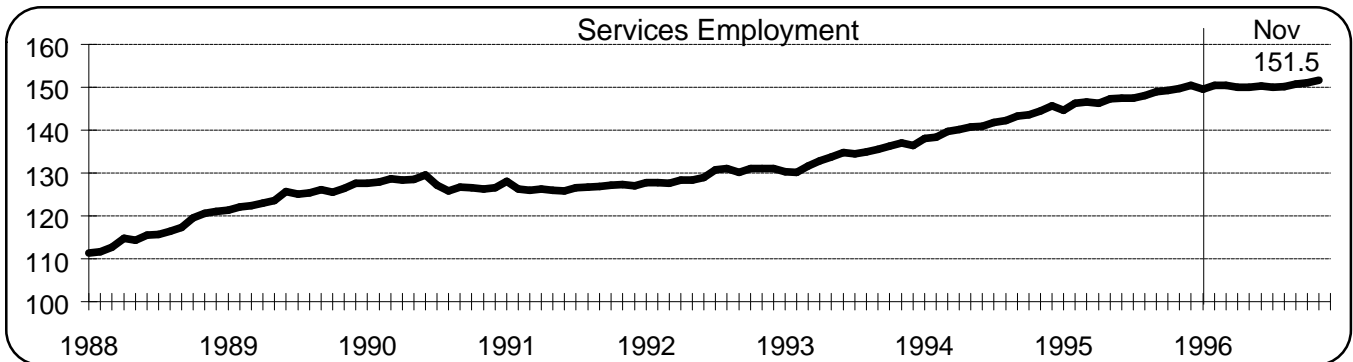
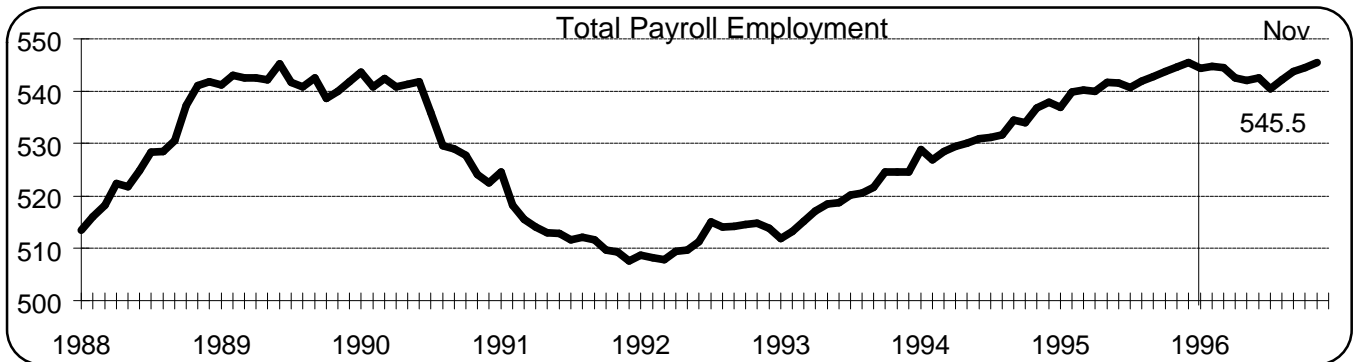
Note: Includes large projects, only. Comparison is between the first 10 months of 1996 and the same period of 1995.

SUMMARY

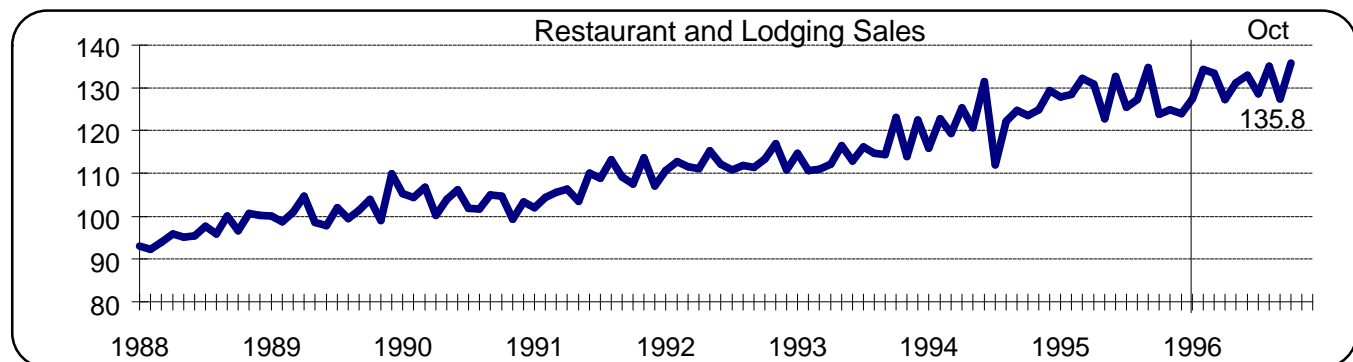
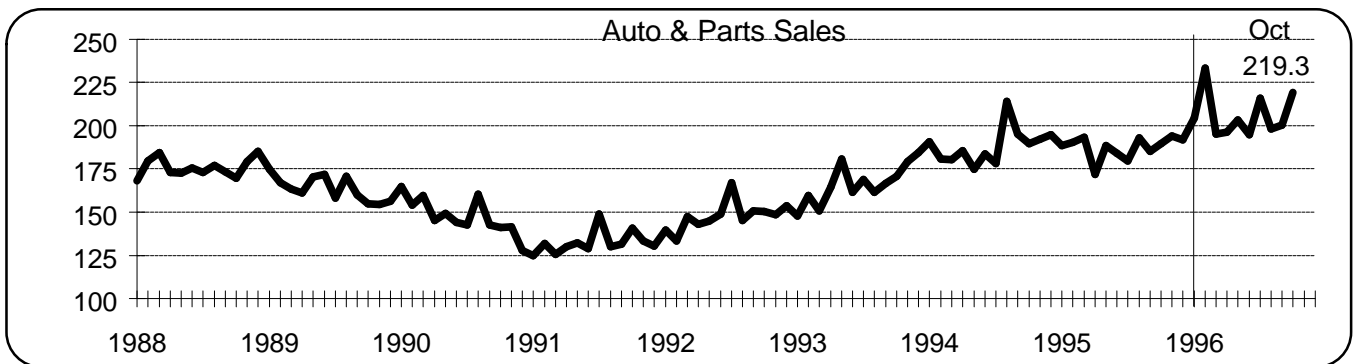
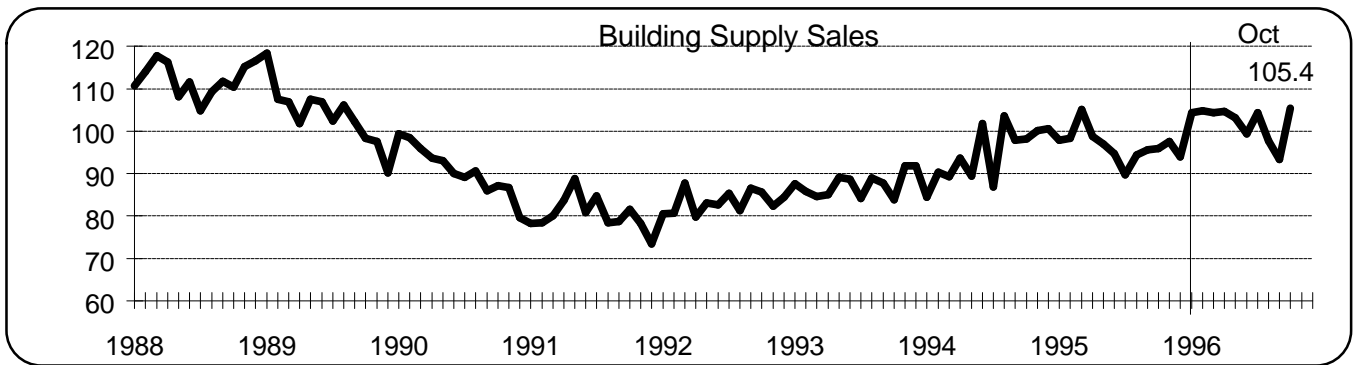
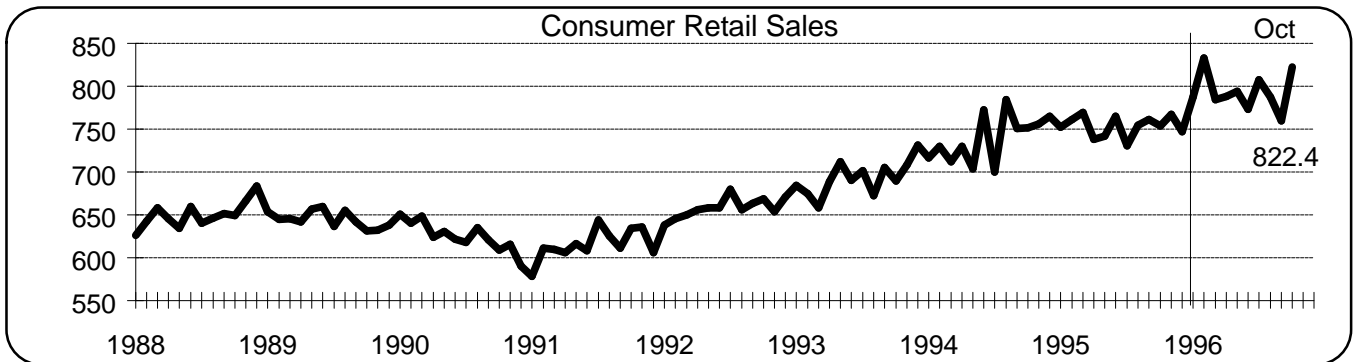
The Maine economy continued to expand in 1996 (real growth of 1.7% through November), but population dynamics held the growth rate down (growth was 2.4% in 1995). The plus side of this development is that the very low jobless rates existing in Maine toward the end of the year have created an excellent job market for most Mainers. If migration patterns change over the next few years, as expected by the Census Bureau (and low unemployment rates will create a draw which can help make this happen), the Maine economy will likely show renewed vigor.

The Maine Economy in 1996

Maine Payroll Employment (seasonally adjusted 1,000's)

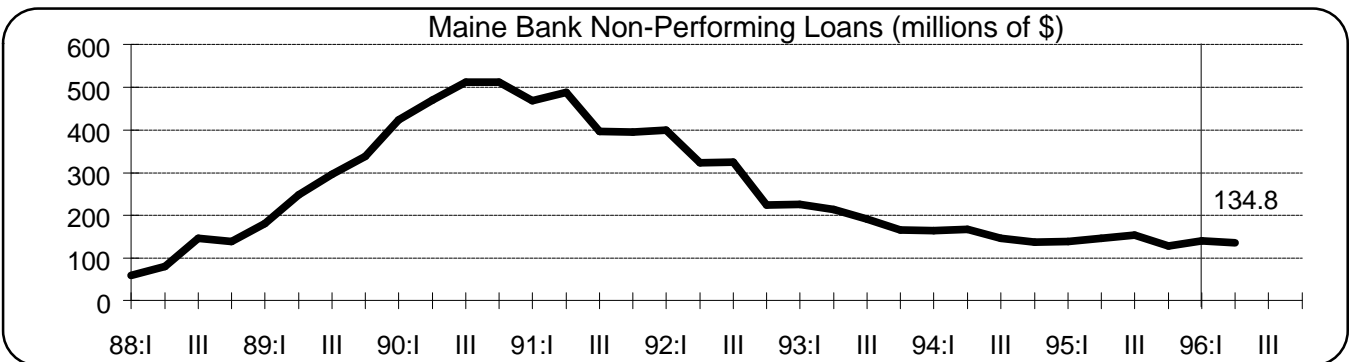
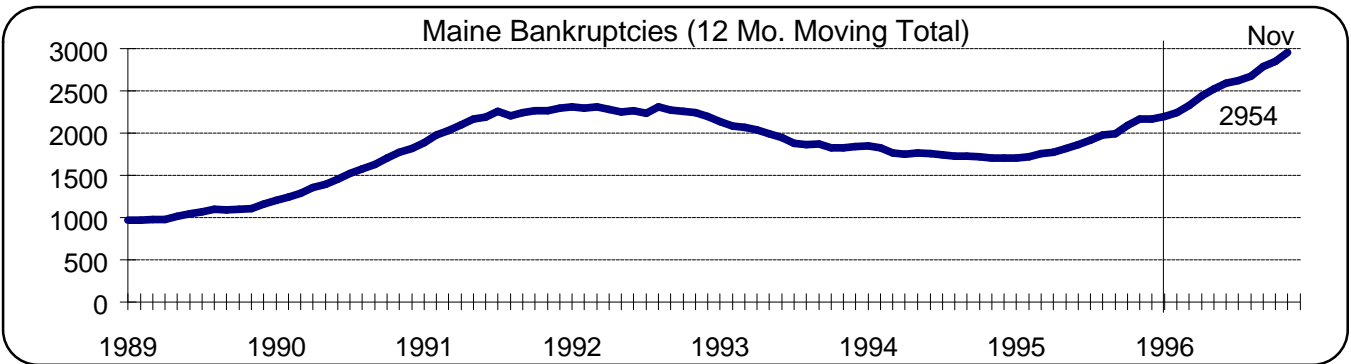
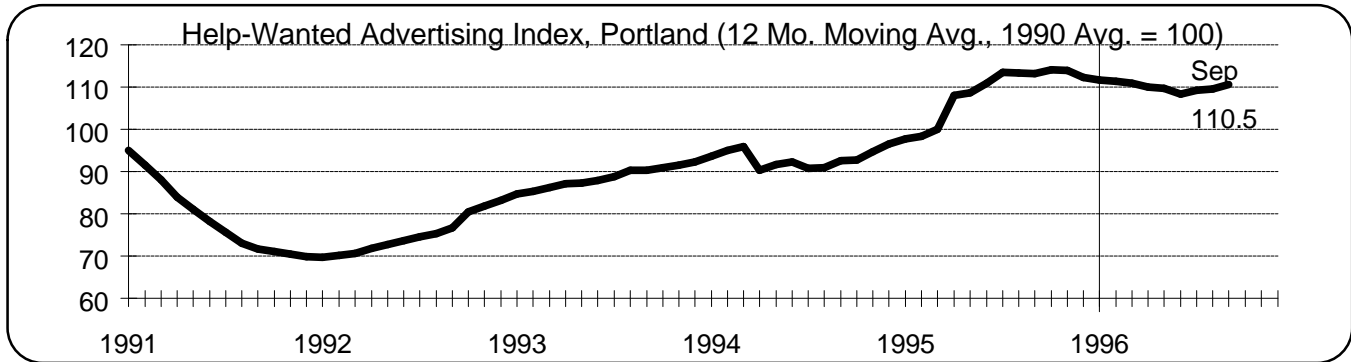
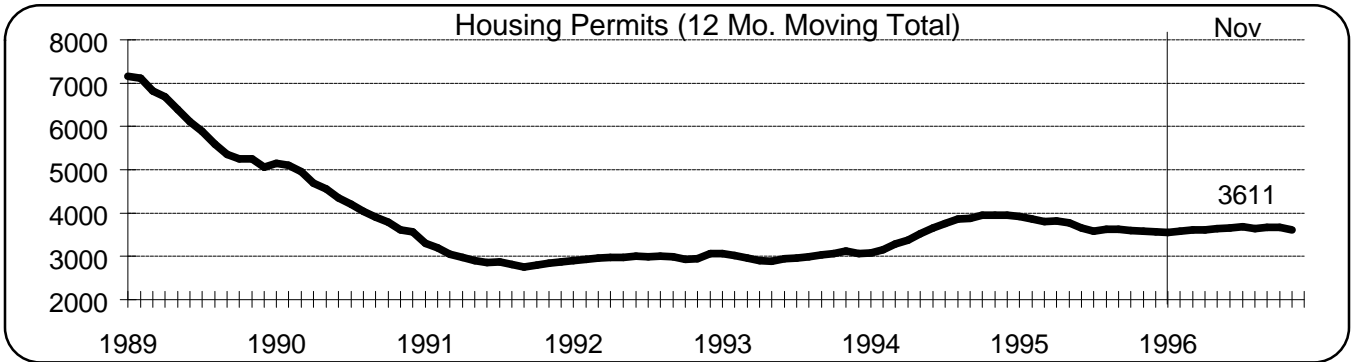


Maine Taxable Consumer Sales (seasonally adjusted mil.\$)



The Maine Economy in 1996

Miscellaneous Economic Indicators



The Ten Most Significant Economic Events in Maine in 1996

It seems to be standard practice for year-end publications to carry a 'Top Ten' list. Not wishing to be outdone, we include herewith our own top ten, in no particular order.

OIKONOMIA AND DEMOS

These words are Greek for economics and demography, which are Greek to nearly everyone else. Anyway, Maine's population dynamics are shaping the economy in several ways. The changing age composition of the population is transforming the potential labor supply; it is increasing the pool of potential senior workers as the large Post-World-War-II baby boom generation begins to pass age 45, while reducing the pool of potential junior and entry level workers as the smaller cohorts born after the baby boom replace the baby boomers in the 16 to 44 age group. The U.S. Census Bureau estimates the number of residents in ages 45 through 64 increased 10.9% from 1990 to 1995 while the number in ages 25 through 44 declined 2.3%, and the number in ages 16 through 24 declined 6.8%. These changes help account for the tight labor markets observed in some parts of Maine this year (see Overview on page 2). The pool of potential senior workers will continue to increase at a rapid rate until the last of the baby boomers pass age 45 in 2009, when the Census Bureau projects that 45% of Maine residents ages 16 through 64 will be over age 45, compared with 25% in 1990. While the cohorts under age 45 are net borrowers, the cohorts over age 45 are net savers. Hence, as the smaller cohorts born after the baby boom replace the baby boomers in the younger age ranges, there will be a decrease in consumer demand and an increase in savings. The effects of this changing age composition are already reflected in a decline in the rate of increase in households (the basic consumer units). The Census Bureau estimates the number of households resident in Maine has increased only 0.43% a year during the 1990's compared with 1.65% during the 1980's. A net out-migration from the State has exacerbating the effects of past differences in birth rates noted above. The Census Bureau estimates 9,900 more persons moved out of Maine than moved in between 1990 and 1995. Since younger persons are more likely to move than older ones, this out migration has probably further reduced the number of residents under age 45 beyond the reduction resulting from aging.

BELL RINGS FOR THE BIG FIGHT

With the enactment of the Telecommunications Act of 1996, Congress significantly reworked the Federal Communications Act, the core law governing the telephone, cable television, and other telecommunications industries, for the first time in 60 years. The primary purpose of these changes is to require and facilitate removal of barriers to competition in all sectors of the telecommunications industry. Under the Act, cable television and local and long distance telephone companies, for example,

are able to enter into one another's formerly protected markets. Congress' goals in enacting these potentially far reaching changes and jump-starting industry-wide competition are to increase consumer choices, reduce residential and business rates, and stimulate development and deployment of new technologies. Both the FCC and state PUCs have significant and expanded responsibility for implementation of Congress' pro-competition policies. The major players in telecommunications industry worldwide have been busy positioning themselves to take advantage of new and emerging business opportunities, and a number of major corporate mergers and other business alliances have been announced since enactment of the Telecomm Act. The pending merger of NYNEX and Bell Atlantic has the greatest implications for Maine residential and business customers. Overall, the implications for Maine of the emerging "new world order" in telecommunications is hard to predict. Some foresee that due to its location, low population density, and other factors Maine will not see significant new entries into local telephone and other markets until much later than the nation's urban areas and that significant competition and its attendant benefits may never reach the State's most rural areas. Maine's challenge is to identify and target the most promising opportunities and to encourage beneficial competition throughout the State.

BLACK GOLD IN PORTLAND HARBOR...

On September 27, the Julie N, an oil tanker carrying heating oil, struck the Million Dollar bridge connecting Portland and South Portland. The collision tore open the ship's single hull, spilling more than 170,000 gallons of oil into the Fore River. The winds and tides combined to spread the slick up the Fore River and out into Casco Bay. But, State and private response teams began booming the spill literally within minutes of the collision and, remarkably, they recovered close to 80% of the spilled oil. Fears of contaminated seafood swept through the maritime sector of our economy, but proved to be exaggerated, and the insurers of the Julie N were able to reimburse fishermen and lobstermen for much of their losses. The eventual cost of cleaning the spill reached almost \$40 million and provided an unexpected economic boost to Portland. On the very day that the Julie N left the harbor, it started to rain...

The Maine Economy in 1996

AND THEN THE ANGELS CRIED...

From October 20th to October 22nd, a massive storm dumped more than one foot of rain on much of southern Maine. Severe damage was done to roads and bridges, with areas of southern Maine being virtually inaccessible except by boat. In addition, raging floods generated by the storm's runoff cut off water supplies to over 125,000 Portland area residents, forcing closures of schools, businesses and non-emergency government services. Had the rain fallen as snow, the greater portion of southern Maine would have received in excess of 150 inches from this storm alone. It will be some months before the full extent of the destruction is known, but it is certain that the bill for damages and lost business will tally well into the tens of millions of dollars.

CLOSER ENCOUNTERS OF AN ECONOMIC KIND

As a result of initiatives by the Governor, the Legislature and a host of private and public sector leaders, a Maine International Trade Center (MITC) opened its doors for business on Congress Street in Portland. The new trade center's role is to assist Maine businesses in taking their products to the 96% of the world's consumers who live outside of North America. A major focus of MITC is to coordinate and target trade missions led by the Governor to regions abroad where Maine firms have the most abundant opportunities to create new business prospects. The Maine International Trade Center has positioned itself as a one-stop center where Maine businesses can get free counseling and advice on how to move into the global marketplace most successfully.

IT AIN'T OVER 'TIL IT'S OVER

Among the three forestry-related ballot questions, the November '96 election produced a clear leader, but not a clear winner. Forty-seven percent (283,000) of Maine voters checked the box for the "Forestry Compact," while 175,000 Mainers opted to enact Ban Clearcutting's referendum. Another 139,000 Mainer's voted to do neither, and thereby leave the current law in place. It was estimated by the Maine Forest Service that, if passed, the Ban Clearcutting referendum would have restricted the amount of timber that could be harvested in Maine to approximately 65% of the current level. This severe reduction in timber supply was the basis of an estimate by the State Planning Office which projected a loss of approximately 15,000 Maine jobs within a five year period. Since neither the Ban Clearcutting or Forestry Compact measures received over 50% of the vote, the one receiving the higher amount, the Forestry Compact, will be put to a straight up or down vote on an upcoming statewide ballot.

OF SPACE, TIME AND ECONOMICS...

According to the Maine Department of Labor's Dislocated Worker Unit, the number of large layoff events in Maine rose sharply in 1996. There were 14 events in '96 which involved 100 or more workers, nearly triple the 5 reported in 1995. The new layoffs involved manufacturers mostly, but other sectors represented were the Turnpike Authority, building materials, health services and the Federal Government. There were 15 more layoffs which included between 50 and 100 workers; these involved manufacturers, mass merchandisers, banks, a supermarket chain, and a newspaper. On the other hand, the Maine Department of Economic and Community Development's 1996 list of new industries and expansions came to us on eight pages and involved only 8 companies adding 50 or more jobs, but many, many smaller projects. The supernovas of the announcement list were the continued expansion of MBNA (200 to 1000 over 3 years), a Federal Government accounting facility (271-550), a technology center (437-560) and the Bethel Station development (700). Of course, Murphy's Law suggests that if an expansion occurs at the same time as a layoff, then it will be in a different place, and if it occurs in the same place, it will be at a different time. In an economy in transition, one of the greatest challenges is to match people in need of jobs with the skills required and the opportunities available - at the right place and the right time.

THE BEST OFFENSE...

The outlook for Maine's national defense sector turned a sharp about-face at the end of 1996 when, in quick succession, ex-Senator Bill Cohen was nominated for U.S. Secretary of Defense, new Senator Olympia Snow took Cohen's old seat on the Joint Armed Services Committee, and BIW won a large defense contract. The BIW story involves the building of up to 11 ships costing up to \$700M each. The vessels planned are a new generation of Navy amphibious transport ship. But again, there's this problem of timing; BIW plans to continue downsizing for now, pink slipping as many as 1,500 workers over the next two years, but then the new LPD-17 contract may enable the shipbuilder to build its workforce back up to its current 7,500 over another few years. Without the contract, BIW could have faced 3,000 job losses by the year 2000.

BEHOLD THE BERRY

Within weeks of the King Administration's publication of a plan to dramatically increase cranberry production in Maine, Cherryfield Foods announced its intention to seek State and federal approval for a \$36 million, 900-acre cranberry operation in Washington County. When it is in full production, it is projected that Maine will account for 3% of worldwide cranberry production. The farming operation will employ 75 full-time and another 200 seasonally. The announced plans also indicate the possibility of a \$10 million processing facility that would be fed primarily by the local berries. The Administration's master plan, titled "2000+8," calls for 1,000 more acres of production by 2000, and another 1,000 acres by 2008.

ELIZABETH NOYCE DIES

Elizabeth Noyce, who is reported to have given \$60,000,000 to Maine causes, died September 18. She began summering in Maine in the 1960's and moved here year-round in the mid-1970's. The following is only a sample of her contributions to the State. In 1995, she gave \$3,000,000 for Barbara Bush's Children's Hospital at the Maine Medical Center. Also in 1995, she gave \$1,300,000 to the Cumberland Civic Center for improvements and to preserve its name. She contributed \$10,000 to a Portland Police Department gun buyback program. She founded the Maine Bank and Trust Company when she became disturbed at the number of Maine banks taken over by out-of-state banks. She bought the Nissen Bakery to keep the jobs in Maine when it appeared the bakery would be moved out-of-State. She bought several pieces of property in Portland, planning to develop them to enhance downtown business. L.L. Bean opened a factory outlet in one of them, giving an important boost to Congress Street. She funded the speculative building of several homes in the mid-coast area during the last recession in order to keep local craftsmen employed. And, she donated numerous paintings to the Portland Museum of Art. Her children have promised to continue the many projects only partially completed at her death.

The U.S. and New England Outlook

As the national economy enters its sixth year of expansion, U.S. economic performance could best be described as solid. Though the type of growth we have experienced through this recovery is not as vibrant as that of the eighties (see Figure 1), the consistent 2%-3% annual gains represent a comfortable and perhaps more sustainable level of activity. Much of the strength in the national economy has come from soaring export activity which, according to a December 30, 1996 Business Week article, has “risen by 14% since 1994, three times as fast as the overall economy.” The article, entitled “The Triumph of the New Economy”, also points out that business investment in technology has grown by a phenomenal 24% over the past year, representing one-third of all economic growth and paving the way to sound productivity improvements for U.S. business. Figure 1 also shows that the Federal Reserve Board’s careful and deliberate attempts to keep inflation under wraps appears to be working as inflation has been a non-issue this decade.

The outlook for national economic activity is “more of the same”. No recession is anticipated in the near future and growth in real gross domestic product is expected to plod along in the 2%-2.5% range over the next 5 years. Forecasters appear to believe that the Fed will be able to continue its delicate balancing act, keeping inflation under 4% without sending the economy into a downturn.

As Figure 2 illustrates, employment growth at the national level has far outpaced regional and local increases. From the trough in 1991, U.S. employment has increased a full 12 percentage points which translates to slightly more than 2% growth annually. By comparison, New England’s employment has regained 7 percentage points and Maine’s employment levels have only grown by 6%. Despite the fact that the region’s job growth is slightly ahead of Maine’s, the region, having suffered a much deeper downturn, has yet to fully recover the jobs that were lost. Maine, New Hampshire and Vermont returned to peak employment levels a year ago, but the southern-tier states have been slow to recover. In fact, Connecticut, and to a certain extent Rhode Island, are still staggering from the recessionary blow and their relatively weak economic performance will continue to place a drag on regional economic indicators.

The outlook for the overall New England economy is for continued slow recovery with the lackluster performance of the Connecticut and Rhode Island economies clouding the vibrancy of the Massachusetts and New Hampshire showing. The fact that Maine is likely more influenced by our closest neighbors should translate to our receiving relatively more benefit than harm from the varied performance of those in the region.

Fig. 1

Real U.S. Gross Domestic Product and Consumer Price Index

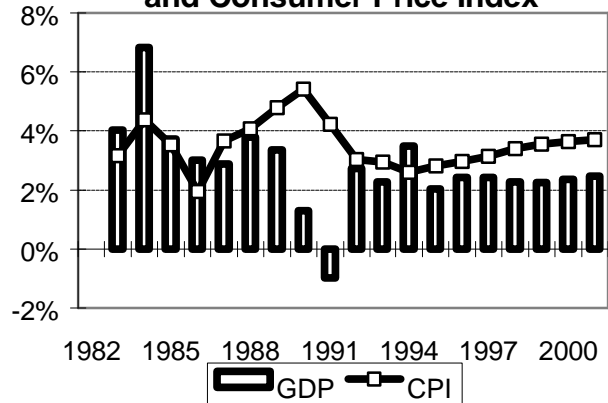
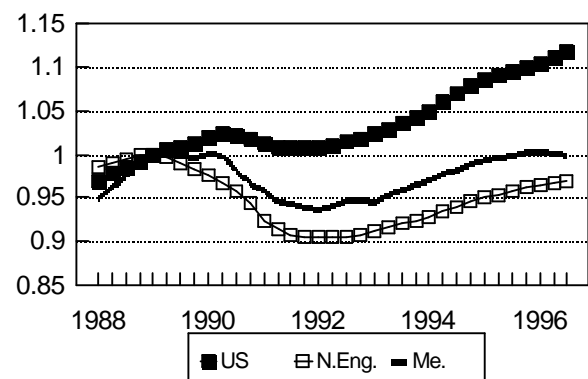


Fig. 2

The Recovery

Measured by Payroll Employment (1989Q1=1.00)



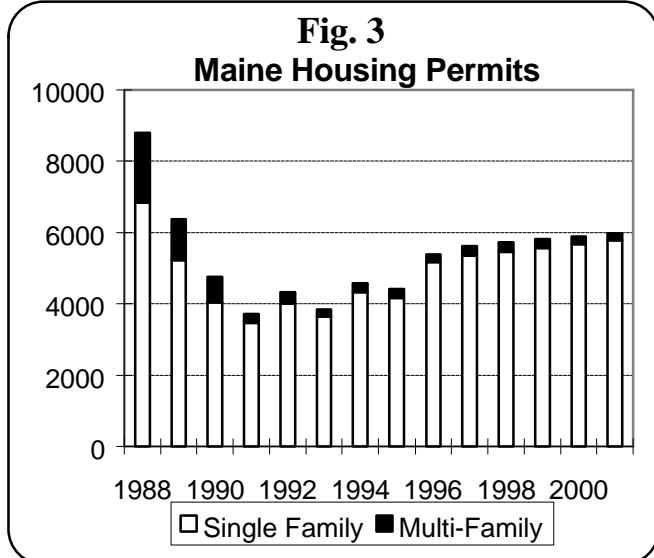
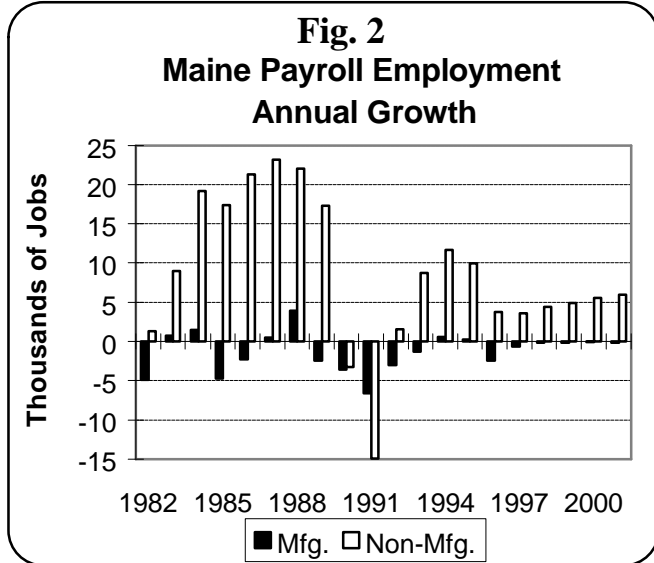
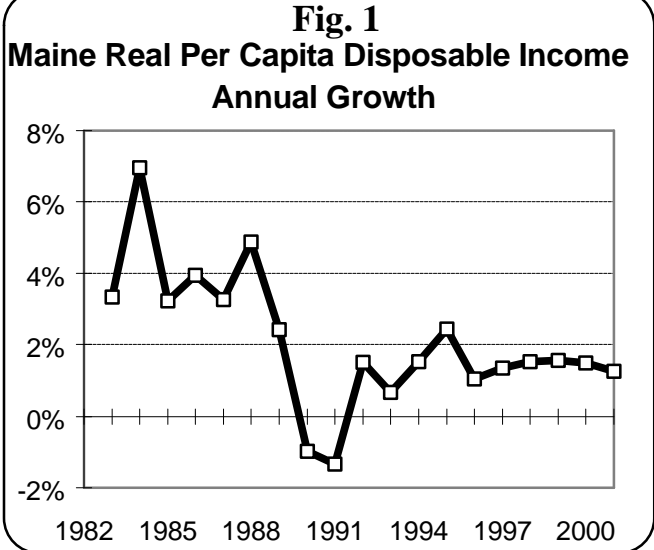
As “The Maine Economy in 1996” portion of this report describes in some detail, Maine’s economic indicators are sending mixed messages, highlighting the slow and uneven nature of this recovery and clouding the crystal ball for economic forecasters. On the positive side, after five full years of recovery, Maine’s economy has finally regained its pre-recession job count of 545,000. Unemployment rates, which are perhaps the most encouraging statistics of late, have reached low levels that we haven’t enjoyed since 1988. As of November, statewide unemployment had fallen to 4.2% and no county had a jobless rate in excess of 10%. Consumer confidence is up slightly, business customer counts at the state’s largest utility continue to grow, and real per capita income (see Figure 1) is showing slow but steady progress. Other statistics point to ongoing challenges. Despite what might be described as “tight labor market conditions,” many Maine residents appear to be living on the edge. Bankruptcy filings, predominantly individuals rather than businesses, have skyrocketed through 1996, reaching a level of 2,954, which is 30% higher than we experienced during the depths of the recession. The number of food stamp recipients has remained at very high levels, rising nearly 80% during the downturn and dropping only 10% through the recovery. While many areas of Maine prosper, other communities, such as Corinna and Fort Kent, have sustained serious blows as major employers have closed their doors, fundamentally changing the lives of those people.

Maine’s struggle is not unique, nor is it hopeless. The face of Maine’s economy has long been lined with a special character that only comes from hard work, setback, and struggle and a pride that comes from tremendous perseverance and ingenuity. Much like its past, Maine’s future is expected to be marked by slow overall growth, with some regions and industries experiencing vibrant growth, and others finding a tougher road.

As with the rest of the nation, job growth in manufacturing (see Figure 2) is expected to be minimal, but productivity gains in this sector will continue to bring wealth to our state. Overall employment growth will average 0.5% - 1.0% , a mere fraction of the 5% - 6% growth that marked the mid-eighties. The upward push on wages brought about by fairly tight labor market conditions will be somewhat offset by the service sector’s generally lower wage and lower benefit job offerings. keeping real income growth below the 2% mark through the next 5 years (see Figure 1).

As Figure 3 illustrates, housing activity, which bottomed out in 1991, will slowly regain strength, with virtually all growth occurring in the single-family housing designation.

Overall, Maine’s real Gross State Product will grow at a rate of 1.5% annually, remaining below national growth rates for the foreseeable future.



ISSUES FOR THE FUTURE

Below, we outline five issues which we believe will play major roles in Maine's near-term economic future.

TELECOMMUNICATIONS POLICY

The State Planning Office, in concert with other State agencies and private industry representatives, is developing the next generation of State telecommunications policy. This effort is in anticipation of new opportunities for economic development and enhancement of the State's education resources that are emerging in the wake of Congress' enactment of the Telecommunications Act of 1996. That act is aimed at increasing competition in the telecommunications industry and bringing the advantages of advanced telecommunications to the nation's schools and libraries. Current policy efforts are aimed at identifying strategies (including changes in State law, regulations, and governmental practices) needed to:

- 1) lower intrastate toll rates for residential and small and medium business customers;
- 2) encourage location of new telecommunications businesses and industries;
- 3) encourage entry of competitors in intrastate and local telephone markets;
- 4) network schools and libraries across the State in a manner that allows fast, efficient and affordable sharing of services and information;
- 5) provide Maine citizens electronic access to nonproprietary government data and information resources, and access to health care services otherwise available only in urban areas;
- 6) ensure that Maine customers have access to information needed to make informed choices about how best to spend their telecommunications dollars; and
- 7) ensure that the State's use of rights-of-way and other public assets promotes competition and ensures long term public benefit.

MEDICAID AND WELFARE REFORM

Last fall Congress enacted the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). The act makes sweeping changes in the way public assistance services are delivered, eliminating many familiar programs (such as AFDC), and providing block grants targeted to broad categories of need. Central to the future federal funding allocations to States is the requirement to move people off welfare and into jobs quickly. Initially the amount of money available to assist families is expected to increase, but will decline as states are expected to reduce their caseloads. Along with cuts in cash benefits, the amount of time an adult can receive food stamps is limited to 3 months in a 3 year period. Medicaid and SSI spending are also cut. These changes will leave many without benefits because they do not consider economic trends and regional disparities in employment opportunities or seasonal variations that routinely put people out

of work for varying amounts of time. State and local governments in Maine can expect growing demand for services as the safety net traditionally provided by federal programs shrinks.

NEW NATURAL GAS PIPELINES

Next to restructuring the electric utility industry, the development of natural gas pipelines into and through the State is the most significant energy development in Maine since the energy crises of the 1970's. Two major pipeline projects will provide large new supplies of natural gas for Maine industries and communities.

The Portland Natural Gas Transmission System (PNGTS) project will transport western Canadian gas from an interconnection in Quebec down through New Hampshire and Maine for delivery to the Tennessee Gas System in Haverhill, Ma. This project includes a major lateral (43.5 miles) which will provide gas to pulp and paper mills in Rumford and Jay. Another proposed lateral will provide service to the S.D. Warren mill in Westbrook. Also, the project will assure a secure supply of gas for Northern Utilities to meet current demands and expected load growth in their current delivery network in southern and south central areas.

The second project is the Maritimes & Northeast Pipeline (M&NE) which will transport newly developed gas supplies from the Sable Island gas fields off the coast of Nova Scotia to northeastern U.S. markets. A total 151 miles of laterals and spurs from this line will provide significant supplies of gas to all of the remaining pulp and paper mills and to CMP's power plant on Cousins island.

These potentially large new supplies of natural gas at competitive prices will provide a variety of economic, energy, and environmental benefits. The expanded availability of gas will provide energy consumers with another alternative energy source. Large supplies at competitive prices will help Maine businesses to be more competitive with businesses in other regions of the country. Economic impact studies show a significant construction pulse followed by longer term benefits evolving from enhanced economic activity. Although natural gas is a fossil fuel with fixed supply, these new gas supplies will improve energy security and price stability for the foreseeable future. And, because it is a cleaner burning fuel, the use of gas should contribute to meeting tightening national and State air emission standards.

The true costs and benefits of these pipeline projects will emerge over the next several years. The Federal Energy Regulatory Commission (FERC) has issued its preliminary determinations for the PNGTS project and Phase I of the M&NE project and environmental impact assessments for both projects are well underway. Pipeline companies are seeking

approvals that would enable them to be up and running by the fall of 1998.

UTILITY RESTRUCTURING

Given Maine’s comparatively high electricity prices, the restructuring of Maine’s electric utilities to create retail access to electricity supplies could be the single most important factor in the future vibrancy and direction of the State’s economy. Over the past year, the debate on restructuring shifted to the Public Utilities Commission as phase II of the Legislatively-mandated process to develop a plan unfolded. While several states have moved forward with deregulation and greater competition in the generation and sale of electricity, the Maine PUC created a plan for re-regulating Maine’s two largest investor-owned utilities and submitted it to the 118th session of the Maine Legislature. More of a blueprint than a detailed plan, the PUC proposal calls for full retail access by the year 2000. Many of the specific steps in the process are deferred to subsequent Commission decisions, but the Legislature will ultimately set the direction and pace of utility restructuring in Maine.

With retail access, consumers will be able to shop for electricity in a manner similar to the purchase of long-distance telephone services. The underlying premise is that enhanced competition in the generation and sale of electricity will lower costs and improve choices everywhere. The problem is to transition to a system wherein the full benefits of competition can be realized without bankrupting utilities, endangering the reliability of the electric system, and creating unfair market power.

TAX REFORM

There’s an old saying that suggests that the only things you can count on in life are death and taxes. We would alter that list to include...”and a never-ending cry for tax reform”. In Maine, as in the rest of the nation, the debate over the appropriate level and mix of taxes rages on and political leaders quickly learn that the “T” word, or any of its first cousins, ought not be uttered unless it is directly followed by a modifier such as “cut, relief, break or elimination”.

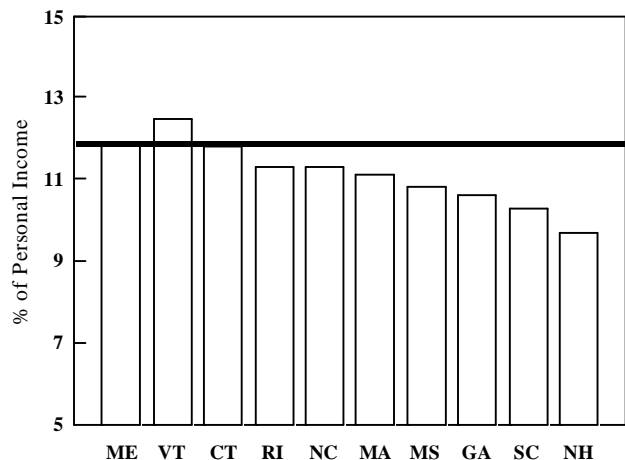
In the face of a feared property-taxpayers’ revolt led by a citizen’s initiative to put a property tax cap to referendum and a significant lobbying effort on the part of the Maine Municipal Association, the State of Maine is, once again, examining its overall tax burden and structure. As the graph below illustrates, the fact that Maine’s tax burden is high is undisputed. Using total state and local taxes as a percentage of personal income as one measure of burden, Maine ranks 10th highest in the nation at 11.9%. Vermont is the only New England state that exacts a higher fee at 12.5%. Other states, with which we compete for jobs, have a significantly lower burden, with our neighboring state of New Hampshire boasting the next to the lowest burden of 9.6%. This may not seem like a big issue until

you realize that a 1% reduction in Maine’s overall tax burden would free-up a quarter of a billion dollars annually which could be used by private industry to invest in Maine.

While most would agree that lowering Maine’s tax burden is desirable, there is presently little consensus on how best to achieve this. Do we lower income taxes with the hope that residents’ spending will bring about economic growth? Do we scale back the progressivity of our income tax structure with the goal of enticing corporate executives to move their businesses to Maine? Do we allow the “temporary” sales tax rate of 6% to return to its pre-budget-crisis rate of 5% to restore some credibility and to enhance our competitiveness with neighboring New Hampshire? Do we provide some property tax relief by paying out more to the municipalities for K-12 education? While each of these and many other goals are surely laudable, the infinitely more difficult questions arise as to how these tax cuts will be funded. Which government programs and services will be cut or eliminated? Herein lies the dilemma. Significant and immediate tax cuts would require significant and immediate spending cuts.

While no easy answer exists, a solution marked by patience and discipline has been put forth by the King Administration. The Governor has developed a budget proposal that ensures that government spending will grow at a slower pace than income over the next few years. By definition, if overall taxes grow at a slower rate than total personal income, then Maine’s tax burden will fall. Whether or not his proposal will gain the support of Legislators or will be enough to calm the revolt is unknown at this point. Whatever the outcome, it will surely make for an interesting debate.

**S&L Tax Burden as a % of Personal Income
Maine and Selected Competitors**



THE MAINE ECONOMY:
Year-End Review and Outlook
1996

**MAINE STATE PLANNING OFFICE
184 STATE STREET
AUGUSTA, MAINE 04333**

